

E-tivity 2.1: Recognition of foreign currency transactions

Question 1. Explain the exchange rates that should be used for translation and how to account for the exchange difference (gains or losses that arise when exchange rates change)?

Question 2. Which of the following statements relating to IAS 21 The effects of changes in foreign exchange rates is correct?

- (a) The functional currency of a foreign subsidiary is the currency that the group financial statements are presented in.
- (b) A foreign subsidiary must present its financial statements in the presentational currency of the parent.
- (c) Consideration will be given to the currency of the costs and sales of the entity when determining its functional currency.
- (d) The more autonomous a subsidiary, the more likely it's functional currency is that of the parent entity.